

Sub commences a suit which results in a judgment against the Company for the fee set forth in this paragraph (b), the Company shall pay to SBC or Merger Sub its costs and expenses (including attorneys' fees) in connection with such suit, together with interest on the amount of the fee at the prime rate of Citibank N.A. in effect on the date such payment was required to be made.

(c) In the event that (i) a bona fide SBC Acquisition Proposal shall have been made to SBC and made known to stockholders generally or shall have been made directly to stockholders generally or any Person shall have publicly announced an intention (whether or not conditional) to make a bona fide SBC Acquisition Proposal and such SBC Acquisition Proposal or announced intention shall not have been withdrawn prior to the SBC Stockholder Meeting and thereafter this Agreement is terminated by the Company or SBC pursuant to Section 8.2(iii) and within nine months after such termination SBC shall have entered into an agreement to consummate a transaction that would constitute a SBC Acquisition Proposal if it were the subject of a proposal, or (ii) this Agreement is terminated (x) by SBC pursuant to Section 8.4(a) or (y) by the Company pursuant to Section 8.3(b)(i), (b)(ii) (solely with respect to a willful and intentional breach) or (b)(iii), then SBC shall promptly, but in no event later than two days after the date of such termination (except as otherwise provided in Section 8.4(a)), or, in the case of a termination pursuant to Section 8.2(iii), two (2) days after the relevant agreement is entered into, pay the Company a fee equal to the Termination Fee, which amount shall be exclusive of any expenses to be paid pursuant to Section 6.11, payable by wire transfer of same day funds. SBC acknowledges that the agreements contained in this Section 8.5(c) are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, the Company would not enter into this Agreement; accordingly, if SBC fails to pay promptly the amount due pursuant to this Section 8.5(c), and, in order to obtain such payment, the Company commences a suit which results in a judgment against SBC for the fee set forth in this paragraph (c), SBC shall pay to the Company its costs and expenses (including attorneys' fees) in connection with such suit, together with interest on the amount of the fee at the prime rate of Citibank N.A. in effect on the date such payment was required to be made.

## ARTICLE IX

### Miscellaneous and General

9.1. Survival. This Article IX and the agreements of the Company, SBC and Merger Sub contained in Sections 6.10 (Benefits), 6.11 (Expenses) and 6.12 (Indemnification; Directors' and Officers' Insurance) shall survive the consummation of the Merger. This Article IX (other than Section 9.2 (Modification or Amendment), Section 9.3 (Waiver of Conditions) and Section 9.13 (Assignment)) and the agreements of the Company, SBC and Merger Sub contained in Section 6.11 (Expenses), Section 6.15 (Confidentiality) and Section 8.5 (Effect of Termination and Abandonment) shall survive the termination of this Agreement. All other representations, warranties, covenants and agreements in this Agreement shall not survive the consummation of the Merger or the termination of this Agreement.

9.2. Modification or Amendment. Subject to the provisions of applicable law, at any time prior to the Effective Time, the parties hereto may modify or amend this Agreement, by written agreement executed and delivered by duly authorized officers of the respective parties.

9.3. Waiver of Conditions. (a) Any provision of this Agreement may be waived prior to the Effective Time if, and only if, such waiver is in writing and signed by the party against whom the waiver is to be effective.

(b) No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. Except as otherwise herein provided, the rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

9.4. Counterparts. This Agreement may be executed in any number of counterparts, each such counterpart being deemed to be an original instrument, and all such counterparts shall together constitute the same agreement.

9.5. GOVERNING LAW AND VENUE; WAIVER OF JURY TRIAL.

(a) THIS AGREEMENT SHALL BE DEEMED TO BE MADE IN AND IN ALL RESPECTS SHALL BE INTERPRETED, CONSTRUED AND GOVERNED BY AND IN ACCORDANCE WITH THE LAW OF

THE STATE OF DELAWARE WITHOUT REGARD TO THE CONFLICT OF LAW PRINCIPLES THEREOF. The parties hereby irrevocably submit to the jurisdiction of the Federal courts of the United States of America and the state courts located in the State of Delaware solely in respect of the interpretation and enforcement of the provisions of this Agreement and of the documents referred to in this Agreement, and in respect of the transactions contemplated hereby, and hereby waive, and agree not to assert, as a defense in any action, suit or proceeding for the interpretation or enforcement hereof or of any such document, that it is not subject thereto or that such action, suit or proceeding may not be brought or is not maintainable in said courts or that the venue thereof may not be appropriate or that this Agreement or any such document may not be enforced in or by such courts, and the parties hereto irrevocably agree that all claims with respect to such action or proceeding shall be heard and determined in such a Federal or state court. The parties hereby consent to and grant any such court jurisdiction over the Person of such parties and over the subject matter of such dispute and agree that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 9.6 or in such other manner as may be permitted by law, shall be valid and sufficient service thereof.

(b) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (ii) EACH SUCH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (iii) EACH SUCH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (iv) EACH SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.5.

9.6. Notices. Notices, requests, instructions or other documents to be given under this Agreement shall be in writing and shall be deemed given, (i) when sent if sent by facsimile, provided that the fax is promptly confirmed by telephone confirmation thereof, (ii) when delivered, if delivered personally to the intended recipient, and (iii) one business day later, if sent by overnight delivery

via a national courier service, and in each case, addressed to a party at the following address for such party:

if to SBC or Merger Sub

SBC Communications Inc.  
175 E. Houston  
San Antonio, Texas 78205  
Attention: James D. Ellis, Esq.  
Fax: (210) 351-2298

with a copy to:

Benjamin F. Stapleton, Esq.  
Sullivan & Cromwell  
125 Broad Street  
New York, NY 10004  
Fax: (212) 558-3588

if to the Company

Ameritech Corporation  
30 S. Wacker Drive  
Chicago, Illinois 60606  
Attention: Chairman of the Board, President and  
Chief Executive Officer  
Fax: (312) 207-0892

with copies to:

Ameritech Corporation  
30 S. Wacker Drive  
Chicago, Illinois 60606  
Attention: Executive Vice President and  
General Counsel  
Fax: (312) 207-1540

and

Ameritech Corporation  
30 S. Wacker Drive  
Chicago, Illinois 60606  
Attention: Assistant General Counsel -  
Transactions  
Fax: (312) 207-0086

and

Charles W. Mulaney, Jr., Esq.  
Skadden, Arps, Slate, Meagher & Flom (Illinois)  
333 W. Wacker Dr.  
Chicago, Illinois 60606  
Fax: (312) 407-0411

or to such other persons or addresses as may be designated in writing by the party to receive such notice as provided above.

9.7. Entire Agreement. This Agreement (including any exhibits hereto), the Confidentiality Agreement, the Company Disclosure Letter and the SBC Disclosure Letter constitute the entire agreement, and supersede all other prior agreements, understandings, representations and warranties both written and oral, among the parties, with respect to the subject matter hereof. EACH PARTY HERETO AGREES THAT, EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS AGREEMENT, NEITHER SBC AND MERGER SUB NOR THE COMPANY MAKES ANY OTHER REPRESENTATIONS OR WARRANTIES, AND EACH HEREBY DISCLAIMS ANY OTHER REPRESENTATIONS OR WARRANTIES MADE BY ITSELF OR ANY OF ITS OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, FINANCIAL AND LEGAL ADVISORS OR OTHER REPRESENTATIVES, WITH RESPECT TO THE EXECUTION AND DELIVERY OF THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY, NOTWITHSTANDING THE DELIVERY OR DISCLOSURE TO THE OTHER OR THE OTHER'S REPRESENTATIVES OF ANY DOCUMENTATION OR OTHER INFORMATION WITH RESPECT TO ANY ONE OR MORE OF THE FOREGOING.

9.8. No Third Party Beneficiaries. Except as provided in Section 6.12 (Indemnification; Directors' and Officers' Insurance), this Agreement is not intended to confer upon any Person other than the parties hereto any rights or remedies hereunder.

9.9. Obligations of SBC and of the Company. Whenever this Agreement requires a Subsidiary of SBC to take any action, such requirement shall be deemed to include an undertaking on the part of SBC to cause such Subsidiary to take such action. Whenever this Agreement requires a Subsidiary of the Company to take any action, such requirement shall be deemed to include an undertaking on the part of the Company to cause such Subsidiary to take such action and, after the Effective Time, on the part of the Surviving Corporation to cause such Subsidiary to take such action.

9.10. Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the

validity or enforceability or the other provisions hereof. If any provision of this Agreement, or the application thereof to any Person or any circumstance, is invalid or unenforceable, (a) a suitable and equitable provision shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (b) the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction.

9.11. Interpretation. The table of contents and headings herein are for convenience of reference only, do not constitute part of this Agreement and shall not be deemed to limit or otherwise affect any of the provisions hereof. Where a reference in this Agreement is made to a Section or Exhibit, such reference shall be to a Section of or Exhibit to this Agreement unless otherwise indicated. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation."

9.12. Captions. The Article, Section and paragraph captions herein are for convenience of reference only, do not constitute part of this Agreement and shall not be deemed to limit or otherwise affect any of the provisions hereof.

9.13. Assignment. This Agreement shall not be assignable by operation of law or otherwise; provided, however, that SBC may designate prior to the Effective Time, by written notice to the Company, another wholly-owned direct or indirect Subsidiary to be a party to the Merger in lieu of Merger Sub, in which event all references herein to Merger Sub shall be deemed references to such other Subsidiary (except with respect to representations and warranties made herein with respect to Merger Sub as of the date hereof) and all representations and warranties made herein with respect to Merger Sub as of the date hereof shall also be made with respect to such other subsidiary as of the date of such designation. Any assignment in contravention of the preceding sentence shall be null and void.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of the parties hereto as of the date first written above.

AMERITECH CORPORATION

By: /s/ Richard C. Notebaert  
Name: Richard C. Notebaert  
Title: Chairman and Chief  
Executive Officer

SBC COMMUNICATIONS INC.

By: /s/ Edward E. Whitacre, Sr.  
Name: Edward E. Whitacre, Sr.  
Title: Chairman and Chief  
Executive Officer

SBC DELAWARE, INC.

By: /s/ Edward E. Whitacre, Sr.  
Name: Edward E. Whitacre, Jr.  
Title: President

**Form of Company Affiliate's Letter**

\_\_\_\_\_, 1998

SBC Communications Inc.  
175 E. Houston  
San Antonio, TX 78205

Ladies and Gentlemen:

The undersigned is a holder of shares of Common Stock, \$1.00 par value per share ("Company Common Stock"), of Ameritech Corporation, a Delaware corporation (the "Company"). Pursuant to the terms of that certain Agreement and Plan of Merger, dated as of May 10, 1998, among the Company, SBC Communications Inc., a Delaware corporation ("SBC"), and SBC (Delaware), Inc., a Delaware corporation and a wholly-owned subsidiary of SBC ("Merger Sub"), Merger Sub will be merged with and into the Company and the Company will become a wholly owned subsidiary of SBC (the "Merger"). In connection with the Merger, the undersigned, as a holder of Company Common Stock, will be entitled to receive Common Stock, par value \$1.00 per share, of SBC (the "Securities") in exchange for the shares of Company Common Stock held by the undersigned at the effective time of the Merger.

The undersigned acknowledges that the undersigned may be deemed an "affiliate" of the Company within the meaning of Rule 145 ("Rule 145") promulgated under the Securities Act of 1933, as amended (the "Act"), and/or as such term is used in and for purposes of Accounting Series Release Nos. 130 and 135, as amended, of the Securities and Exchange Commission (the "Commission"), although nothing contained herein shall be construed as an admission of such status.

If in fact the undersigned were an affiliate of the Company under the Act, the undersigned's ability to sell, assign or transfer any Securities received by the undersigned in exchange for any shares of Company Common Stock pursuant to the Merger may be restricted unless such sale, assignment or transfer is registered under the Act or an exemption from such registration is available. The undersigned understands that such exemptions are limited and the undersigned has obtained advice of counsel as to the nature and conditions of such exemptions, including information with respect to the



SBC Communications Inc.

\_\_\_\_\_, 1998

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applicability to the sale of such Securities of Rules 144 and 145(d) promulgated under the Act.

The undersigned hereby represents to and covenants with SBC that it will not sell, assign or transfer any Securities received by the undersigned in exchange for shares of Company Common Stock pursuant to the Merger except (i) pursuant to an effective registration statement under the Act, (ii) by a sale made in conformity with the volume and other limitations of Rule 145 (and otherwise in accordance with Rule 144 under the Act, if the undersigned is an affiliate of SBC and if so required at the time) or (iii) in a transaction which, in the opinion of independent counsel reasonably satisfactory to the Company or as described in a "no-action" or interpretive letter from the Staff of the Commission reasonably satisfactory to SBC, is not required to be registered under the Act.

The undersigned understands that SBC is under no obligation to register the sale, assignment, transfer or other disposition of the Securities by the undersigned or on behalf of the undersigned under the Act or to take any other action necessary in order to make compliance with an exemption from such registration available solely as a result of the Merger.

In the event of a sale of Securities pursuant to Rule 145, the undersigned will supply SBC with evidence of compliance with such Rule, in the form of customary seller's and broker's Rule 145 representation letters or as SBC may otherwise reasonably request. The undersigned understands that SBC may instruct its transfer agent to withhold the transfer of any Securities disposed of by the undersigned in a manner inconsistent with this letter.

The undersigned acknowledges and agrees that appropriate legends will be placed on certificates representing Securities received by the undersigned in the Merger or held by a transferee thereof, which legends will be removed (i) by delivery of substitute certificates upon receipt of a letter from the staff of the Commission, or an opinion of counsel in form and substance reasonably satisfactory to SBC, to the effect that such legends are no longer required for the purposes of the Act and the rules and regulations of the Commission promulgated thereunder, (ii) in the event of a sale of the Securities which has been registered under the Act or made in conformity with the provisions of Rule 145.

The undersigned further represents to and covenants with SBC that (i) the undersigned will not, during the 30 days prior to the effective time of the Merger sell, transfer or otherwise dispose of, or reduce any risk relative to, any securities of the Company or

SBC Communications Inc.

\_\_\_\_\_, 1998

Page 3

SBC, and (ii) the undersigned will not, after the effective time of the Merger, sell, transfer or otherwise dispose of, or reduce any risk relative to, the Securities, whether received by the undersigned in the Merger or otherwise, until after such time as financial results covering at least 30 days of post-Merger operations of SBC (including the combined operations of the Company and SBC) have been published by SBC in the form of a quarterly earnings report, an effective registration statement filed with the Commission, a report to the Commission on Form 10-K, 10-Q or 8-K, or any other public filing or announcement which includes such results of operations, except in the cases of clauses (i) and (ii) of this paragraph to the extent permitted by, and in accordance with, SEC Accounting Series Release 135 and SEC Staff Accounting Bulletins 65 and 76 if and to the extent that such release and bulletins remain in full force and effect at the relevant time.

I further understand and agree that this letter agreement shall apply to all shares of Company Common Stock and Securities that I am deemed to beneficially own pursuant to applicable federal securities law.

The undersigned acknowledges that it has carefully reviewed this letter and understands the requirements hereof and the limitations imposed upon the distribution, sale, transfer or other disposition of Securities.

Sincerely,

[NAME OF COMPANY AFFILIATE]

**Form of SBC Affiliate's Letter**

\_\_\_\_\_, 1998

SBC Communications Inc.  
175 E. Houston  
San Antonio, TX 78205

Ladies and Gentlemen:

The undersigned is a holder of shares of Common Stock, par value \$1.00 per share (the "Securities"), of SBC Communications Inc., a Delaware corporation ("SBC"). Pursuant to the terms of that certain Agreement and Plan of Merger, dated as of May 10, 1998, among Ameritech Corporation, a Delaware corporation (the "Company"), SBC and SBC Delaware, Inc., a Delaware corporation and a wholly-owned subsidiary of SBC ("Merger Sub"), Merger Sub will be merged with and into the Company and the Company will become a wholly owned subsidiary of SBC (the "Merger").

The undersigned acknowledges that the undersigned may be deemed an "affiliate" of SBC as such term is used in and for purposes of Accounting Series Release Nos. 130 and 135, as amended, of the Securities and Exchange Commission (the "Commission"), although nothing contained herein shall be construed as an admission of such status.

The undersigned hereby represents to and covenants with SBC that the undersigned will not, during the 30 days prior to the effective time of the Merger sell, transfer or otherwise dispose of, or reduce any risk relative to, the Securities or any other shares of the capital stock of SBC until after such time as financial results covering at least 30 days of post-Merger operations of SBC (including the combined operations of the Company and SBC) have been published by SBC in the form of a quarterly earnings report, an effective registration statement filed with the Commission, a report to the Commission on Form 10-K, 10-Q or 8-K, or any other public filing or announcement which includes such results of operations, except to the extent permitted by, and in accordance with, SEC Accounting Series Release 135 and SEC Staff Accounting Bulletins 65 and 76 if and to the extent that such release and bulletins remain in full force and effect at the relevant time.

SBC Communications Inc.

\_\_\_\_\_, 1998

Page 2

I further understand and agree that this letter agreement shall apply to all Securities that I am deemed to beneficially own pursuant to applicable federal securities law.

The undersigned acknowledges that the undersigned has carefully reviewed this letter and understands the requirements hereof and the limitations imposed upon the sale, transfer or other disposition of Securities.

Sincerely,

[NAME OF SBC AFFILIATE]



## **CATEGORIES OF AMERITECH'S FCC AUTHORIZATIONS**

- Part 5: Experimental Radio Service
- Part 22: Cellular Radio Telephone Service  
Paging and Radio Telephone Service
- Part 24: Narrowband Personal Communications Services  
Broadband Personal Communications Services
- Part 25: Earth Station Authorizations
- Part 63: Domestic Section 214 Authorization  
International Section 214 Authorizations
- Part 90: Business Radio Service  
Telephone Maintenance Radio Service  
Trunked Other Industrial/Land Transportation Radio Service
- Part 95: General Mobile Radio Service
- Part 101: Common Carrier Fixed Point-to-Point  
Microwave Service  
Private Operational Fixed Point-to-Point  
Microwave Service  
Local Television Transmission Service



## **DESCRIPTION OF THE APPLICANTS AND THEIR EXISTING BUSINESSES**

### **A. SBC**

SBC's principal businesses consist of the local exchange, wireless and directory publishing services provided by operating subsidiaries of SBC. Since enactment of the 1996 Act, subsidiaries of SBC have also begun to provide Internet access service and interexchange service outside of the seven states in which SBC subsidiaries are ILECs.\* The authorized capital stock of SBC consists of 7,000,000,000 shares of common stock and 10,000,000 shares of preferred stock. As of April 30, 1998, SBC had 1,838,844,294 shares of common stock issued and outstanding, and 26,060,210 shares of common stock held in treasury; no shares of preferred stock were issued and outstanding.

The ILEC subsidiaries of SBC are SWBT, Pacific Bell and Nevada Bell. SWBT has 15.7 million local exchange access lines within Texas, Missouri, Oklahoma, Kansas and Arkansas. Pacific Bell and Nevada Bell together have 17.7 million local exchange access lines within California and Nevada.

Both within those seven states, and in several other major areas, SBC's CMRS subsidiaries – SBMS, SWBW and PBMS – provide cellular and PCS services, including both local and interexchange wireless service, to a population of over 73 million persons. These companies currently serve over 5.6 million CMRS customers.\*\*

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\* SBC's seven "in-region" states are Arkansas, California, Kansas, Missouri, Nevada, Oklahoma and Texas.

\*\* SBMS operates SBC's out-of-region cellular systems in the Chicago, Boston and Baltimore/Washington metropolitan areas, and in Upstate New York. SWBW operates SBC's cellular and PCS systems within the five in-region states served by SWBT. PBMS operates PCS systems in California and Nevada.



SBC's international telecommunications interests include investments in telecommunications companies in Mexico, France, Chile, South Africa, Israel, South Korea, Taiwan and Switzerland, and an investment in a proposed trans-Pacific undersea cable system.

On January 4, 1998, SBC and SNET entered into an Agreement and Plan of Merger under which SNET would become a first tier, wholly-owned subsidiary of SBC. SNET's business consists principally of the provision of local exchange, long distance and cellular service to customers in Connecticut. SBC and SNET plan to consummate the merger by the end of 1998 after necessary federal and state regulatory approvals have been received and certain other preconditions have been met.

**B. Ameritech**

Ameritech is a holding company whose subsidiaries and affiliates provide a wide range of communications services, including local and long distance, cellular, PCS, paging, security, cable television, Internet access, alarm monitoring and directory publishing services. The authorized capital stock of Ameritech consists of 2,400,000,000 shares of common stock, 30,000,000 shares of preferred stock and 30,000,000 shares of preference stock. As of April 30, 1998, Ameritech had 1,100,161,364 shares of common stock issued and outstanding, and 76,993,242 shares held in treasury; no shares of preferred or preference stock were issued and outstanding.

Ameritech's landline communications subsidiaries – Illinois Bell Telephone Company, Indiana Bell Telephone Company, Inc., Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Bell, Inc. – together have more than 20 million local exchange access lines in five-state region.

Ameritech's subsidiaries and affiliates provide cellular services to approximately 3.5 million customers in 42 cellular markets in Illinois, Indiana, Hawaii, Michigan, Missouri, Ohio, Kentucky and Wisconsin, with a combined population of more than 20 million persons. Ameritech provides paging services to 1.5 million customers in Illinois, Indiana, Michigan, Minnesota, Missouri, Ohio and Wisconsin. Ameritech also will be introducing digital PCS service to the Cleveland and Indianapolis metropolitan trading areas this summer.

Ameritech provides telephone directory publishing and electronic advertising throughout its region, along with cable television service in 54 communities in the Chicago, Cleveland, Columbus and Detroit metropolitan areas, and has franchises to provide cable television service in an additional 22 communities in which it is not yet providing service. A subsidiary, SecurityLink by Ameritech, Inc., is North America's second largest security monitoring provider, with over one million residential and commercial accounts. Ameritech Interactive Media Services, Inc. provides Internet services and products to over 66,000 customers.

Ameritech also has significant investments in the European telecommunications industry with direct or indirect financial interests in 15 European countries, including Belgium, Denmark and Hungary.



**AFFIDAVIT OF JAMES S. KAHAN**

STATE OF TEXAS	)	
	)	SS
COUNTY OF BEXAR	)	

JAMES S. KAHAN, being duly sworn, deposes and says:

**Qualifications**

1. My name is James S. Kahan. I am the Senior Vice President for Corporate Development of SBC Communications Inc. ("SBC"). I received a Bachelor's degree in Electrical Engineering from Purdue University and a Master's degree in Business Administration from the University of North Carolina. I began my professional career as an engineer with Western Electric in 1967. Prior to joining Southwestern Bell Telephone ("SWBT") in 1983 I was transferred from Western Electric to Bell Laboratories, South Central Bell, and AT&T. In 1984, I moved to SBC's Corporate Development organization where I worked on the acquisition of Metromedia's cellular and paging systems and various other cellular acquisitions. In 1988 I became Managing Director-Corporate Development and I was responsible for SBC's mergers and acquisitions activities and international business development. During this time I was involved in negotiating SBC's participation in a consortium which purchased a controlling interest in Telefonos de Mexico ("Telmex"). I was appointed Senior Vice President for Corporate Development and became an Officer of SBC in 1992.
2. From 1993 through 1995, I was also principally responsible for SBC's strategic planning, marketing and development of long-term business growth strategies. I have been actively involved in and the lead negotiator of SBC's acquisitions of Pacific Telesis Group, SNET and Ameritech Corporation. In the course of negotiating the

SBC/Ameritech merger, I also directed the preparation and analysis of SBC's strategic initiative to offer local exchange services in 30 of the largest Metropolitan Statistical Areas ("MSAs") in addition to those served by the combined SBC/Ameritech. I am intimately familiar with the strategic imperatives that drove SBC to enter into the negotiations to acquire Ameritech as well as with the various business plans prepared as a part of the analysis of that merger.

### **Purpose of Affidavit**

3. In this Affidavit I will:

- Summarize the evolution of SBC's understanding of trends affecting the telecommunications industry and SBC's role within that industry;
- Explain our view of the telecommunications environment today and the strategic objectives that led us to pursue the National-Local Strategy;
- Describe the National-Local Strategy in detail;
- Explain the integral relationship between the Ameritech acquisition and SBC's "National-Local Strategy";
- Comment on the public interest implications of the strategy, and its potential to stimulate full competition in the telecommunications market; and
- Report on the effects of SBC's merger with Pacific Telesis on jobs, service and investment in California.

## **The Evolution of SBC's Strategy**

4. SBC has progressed in its strategic thinking through three broad phases, with most of the changes in strategy occurring in the last three years. These phases can be summarized as:

- a) Regional focus with opportunistic acquisitions.
- b) The pursuit of scale and scope economies.
- c) National and global ambitions.

5. The first phase began with the AT&T divestiture in 1984 and lasted until approximately six months prior to the enactment of the 1996 Act. In this first phase, SBC regarded itself as a regional telecommunications company. We were not interested in becoming, and were not able to become, a true national or international integrated provider of telecommunications services. While we made several domestic and international acquisitions, we perceived them as being "opportunistic" – that is, we were looking for situations where we could invest in or acquire other companies at an attractive price and add value by leveraging our own management skills and core strengths.

6. The second phase of the evolution of SBC's strategic thinking began in the fall of 1995, when the passage of the Telecommunications Act of 1996 (the "1996 Act") was clearly in view, and continued until approximately the fall of 1997. During this period, we explored domestic expansion opportunities based on our existing assets. We focused on the company's anticipated entry into the long distance business. We also analyzed possible out-of-region local exchange entry through the use of our wireless platforms, primarily as a defensive measure to retain cellular customers who would be solicited by wireless carriers who also offered local service.

7. We started this stage believing that we could remain a regional company and continue to deliver superior shareholder value. However, after analyzing the full implications of the 1996 Act and examining emerging trends, we ultimately came to the conclusion that SBC should seek to dramatically expand the scale and scope of its operations in order to grow and succeed in the fiercely competitive environment which we anticipated as a result of the 1996 Act. The defining moment in that period was the overture we received from Pacific Telesis to begin negotiations regarding a possible merger. Those discussions began initially in the fall of 1995 and were postponed, at SBC's insistence, until after the passage of the 1996 Act.

8. For the most part, we viewed the Pacific Telesis merger (and the subsequent agreement with SNET) as the first step in expanding our company's geographic reach and as an opportunity to achieve efficiencies by spreading common costs over a larger base and by sharing best practices. Through these measures, SBC hoped to prepare for the vigorous competition which all of us expected in all segments of our industry.

9. Following the closing of the SBC/Pacific Telesis merger on April 1, 1997, SBC was still viewed as essentially a regional company – but with the potential cost advantage of a much bigger region than we formerly served. We were alert for additional opportunities to expand our geographic scope and achieve a broader presence, such as the agreement to acquire SNET. We perceived ourselves as a potential player on a national, and ultimately global, scale.

10. However, the third (and current) phase really began in earnest during the fall of 1997 after events in the industry compelled SBC to more aggressively seek to become a national, and ultimately an international, enterprise in order to remain a viable contender for the many growth opportunities which we anticipated. The "wake-up call"

for us was the consolidation of MCI/WorldCom/MFS/Brooks/UUNet into a potent new force that directly threatened SBC's ability to compete for the business of very large business customers. Competitors such as this have national and even global reach, enormous resources, and the ability to offer a full range of services including, especially, the capability of providing the advanced data services which are critical to large corporations. Our merger with Pacific Telesis and exposure to the sophisticated telecommunications market in California helped us appreciate the importance of data services to SBC's future success.

11. We explored alternatives for expanding our business in order to respond to these new competitive threats. The alternatives included joint ventures and de novo entry on a national basis. We rejected joint ventures as a solution because they were believed to be inherently unstable and, we believed, incapable of providing long term viability in the market. We also rejected the concept of de novo entry because we concluded that such entry would be ineffective unless it was undertaken on a massive scale (as reflected in our current National-Local Strategy). We did not believe that SBC, even after the Pacific Telesis merger, possessed the resources necessary for such an effort. In particular, we did not have the management depth or (as I will discuss later) the critical mass of major customers that we can follow to establish a beachhead in out-of-region markets. In addition, such an undertaking would severely dilute our earnings for an extended period.

12. Our strategy crystallized with the conclusion that neither joint ventures nor de novo entry was a feasible solution to SBC's goal of becoming a national and international competitor. By early 1998, we were firmly committed to becoming a national and international telecommunications company, but we did not have an implementation



strategy. We knew we had to expand rapidly, but we also knew SBC did not have the scale and scope to be the first to tackle that expansion alone. So we began looking for a partner that had a similar philosophy and was willing to join forces with us to make our new strategic vision a reality. Discussions with Ameritech followed and culminated in the announcement of SBC's National-Local Strategy and the proposed acquisition of Ameritech.

13. The core of the National-Local Strategy is the conclusion that SBC must develop the capability to compete for the business of large national and global customers both in-region and out-of-region. We cannot remain idle while our competitors capture the huge traffic volumes generated by a relatively small number of larger customers. For example, at Southwestern Bell Telephone Company, the top 809 large businesses represent only 1% of SWBT's business customers, but they generate 37% of the revenues generated by medium and large businesses, 18% of all SWBT business revenues, and 8% of the company's total revenues. The exponential growth of data traffic generated by such customers, and the prospect of competing for their long-distance business when legal prohibitions are removed, suggests that such customers will be even more important in the future. The revenues generated by these accounts make a critical contribution to the coverage of the common costs associated with the network that serves all market segments.

14. By competing successfully for the traffic of large businesses, SBC will also retain the ability in-region to offer affordable, high quality and innovative products and services to our residential and smaller business customers. In addition, our investments in out-of-region markets, although initially made to accommodate major national accounts, will also provide the foundation with which we can compete with the incumbent(s) for